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Chart 1

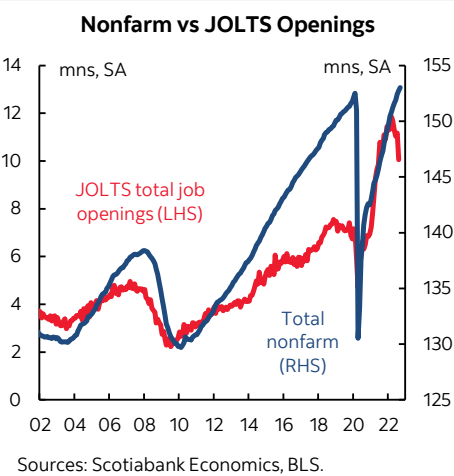
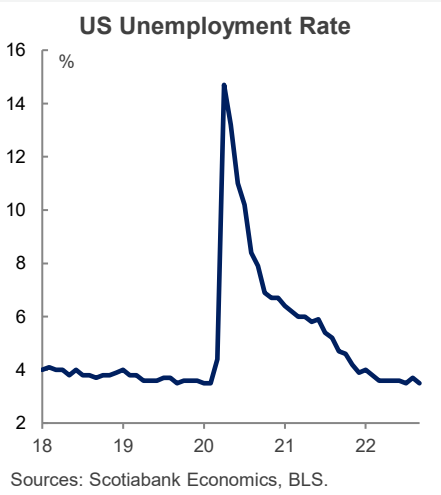


Chart 2



## US Job Growth is Slowly Cooling

- Nonfarm payrolls posted another decent gain...
- ...that keeps labour markets tight...
- ...but momentum is slowing and with more slowing to come

### US Nonfarm payrolls, m/m 000s // UR (%), September, SA:

Actual: 263 / 3.5  
 Scotia: 300 / 3.6  
 Consensus: 255 / 3.7  
 Prior: 315 / 3.7

It's getting there. Slowly and one payrolls report at a time, but the pace of job creation in the US economy is gradually cooling. It remains above the pace at which new entrants are in search of jobs and that continues to keep the job market tight. Nevertheless, the cooling pace of job creation and the turning point in JOLTS job openings portend weaker nonfarm payrolls still lie ahead (chart 1).

As evidence of tightness, the unemployment rate—derived from the companion household survey—fell another two-tenths to 3.5% (chart 2) because that survey's measure of employment growth landed at +204k while 57,000 Americans left the workforce in September and the labour force participation rate slipped a tick to 62.3% (chart 3). The labour force swings have been massive as the prior month saw an entry of 786,000 people in search of work after a net ~410k drop over the prior two months.

The U6 underemployment rate that combines unemployment with measures like folks who are working part-time who would prefer full-time work also fell to 6.7% from 7%. That remains around pre-pandemic lows.

Breadth to the 263k gain in payrolls was soft as a handful of sectors accounted for the majority of it. Education and health were up 90k with leisure and hospitality up 83k while business services added 46k and over half of that came via temp help. See chart 4.

Wage growth held steady at 0.3% m/m or 3.7% at an annualized rate which is similar to the prior month (chart 5). In year-over-year terms, wage growth cooled to 5% from 5.2%. Chart 6 shows the sector breakdown of year-over-year wage gains.

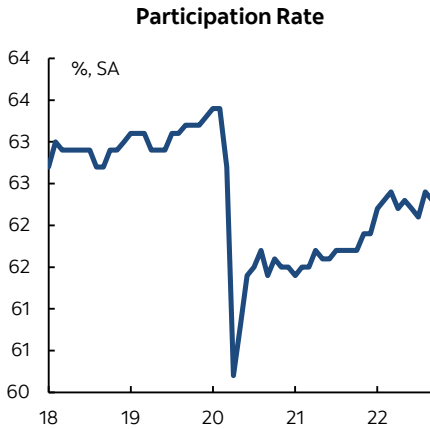
Hours worked were up by 0.2% m/m again. At an annualized rate that leaves hours up by 2.6% q/q at a seasonally adjusted and annualized rate in Q3. This is a little slower than the prior quarter's 3% expansion (chart 7). Since GDP is an identity defined as hours worked times labour productivity, the ongoing strength in hours worked points to underlying resilience in the domestic economy.

Soooo.....the US figures basically reinforce the cooling job market narrative on a trend basis with likely declines ahead over coming months, but the FOMC is a long, long way from being satisfied that enough labour slack has opened up and will only get that with either a long string of much softer gains below the pace of expansion in the workforce or a string of employment declines

Q1 and Q2 US GDP overstated US economic weakness compared to domestic demand drivers. Hours worked confirm that on the same logic that GDP is hours times productivity. I think US GDP growth turns positive again in Q3 as those distortions shake out somewhat and this expectation is supported by continued gains in hours worked.

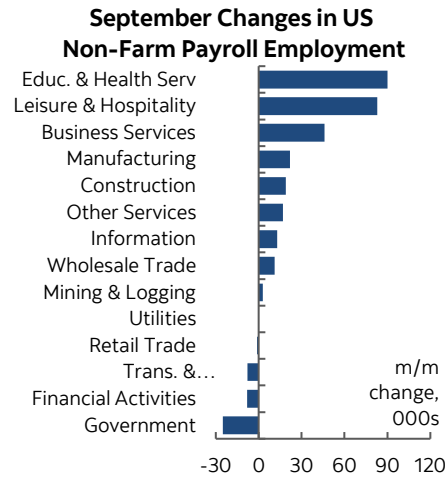
Therefore, while inflation is the focus, the return to what we think is about 2% q/q SAAR US real GDP growth will be positively received by the Fed to keep on hiking on.

Chart 3



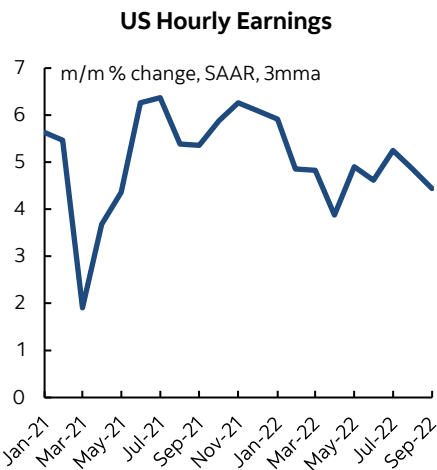
Sources: Scotiabank Economics, BLS.

Chart 4



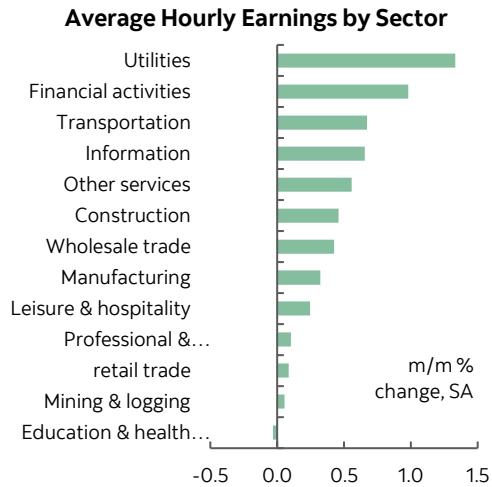
Sources: Scotiabank Economics, US BLS.

Chart 5



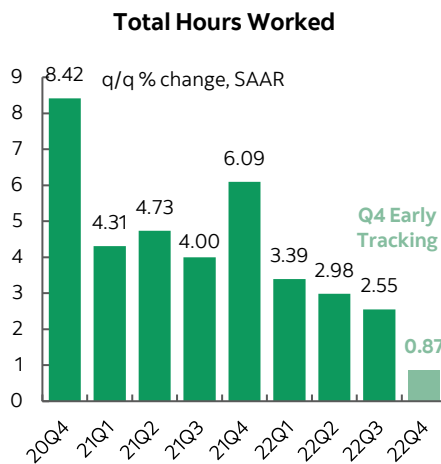
Sources: Scotiabank Economics, BLS.

Chart 6



Sources: Scotiabank Economics, BLS.

Chart 7



Sources: Scotiabank Economics, BLS.

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